

### **New Expenditure Standards required by HB 153**



## MEMORANDUM

TO: State Board of Education Members

FROM: Eric Bode, Executive Director, Office of Quality School Choice & Funding

DATE: December 28, 2011

RE: Expenditure Standards

Attached you will find the draft expenditure standards for your review, as required by ORC 3302.20 (A). In addition to the standards themselves, this memo provides some additional related information that you may find helpful to your consideration of the standards.

## PROCESS

These expenditure standards were developed by Eric Bode, Executive Director for Quality School Choice and Funding, with the assistance of Sonja Hunter, in the period of August to November 2011. Three stakeholder meetings were hosted by ODE in Cleveland, Columbus, and Cincinnati, and were open for interested parties. Two meetings specifically on expenditure standards were hosted by OASBO's Ad Hoc Rankings Committee, and included the participation of the Auditor of State's Office. Standards were also included on the agenda and discussed in other scheduled meetings, including those of JVSD superintendents, the BASA finance committee, community school treasurers, e-schools, and other gatherings, primarily in October. Overviews, including a request for comments, appeared in the Finance Newsletter, which generated email comments from interested parties. Also, documents were posted on the ODE website and one-on-one conversations were held with key individuals. The expenditure standards were discussed in relationship to the efforts within ODE to develop performance rankings.

## METHOD

Data to calculate expenditures are collected electronically – including financial records that utilize the data coding structure of the uniform school accounting system (USAS) available on the auditor of state's website ([auditor.state.oh.us](http://auditor.state.oh.us)) – through the education management information system (EMIS) or other reporting system designated for data collection by the Superintendent of Public Instruction.

Data will be collected after the end of the fiscal year, in a timely fashion so that expenditure data may be reported on each school's annual report card issued under section 3302.03 of the Revised Code for the previous fiscal year, to match the timing of the performance data on the same report card.

Districts will not be required to report additional data because they already report all expenditure data to ODE.

## USES

ORC 3302.20, after requiring the adoption of expenditure standards, also describes certain calculations for ODE to make, along with mandating certain communications.

Based on the expenditures, ODE will calculate, for each school district, the percent of operating expenditures in the two categories of classroom instructional and nonclassroom spending. Each school district will be put into a grouping of similar districts and ranked inside that grouping by the percentage spent on classroom instructional purposes. ODE will also note the school districts in each grouping that have the lowest total operating expenditures per pupil. ODE will calculate the averages statewide and for each grouping.

The groupings are as follows:

- City, exempted village, and local school districts: five groupings based on enrollment (< 999, 1000 – 2,499, 2500 - 4,999, 5,000 - 9,999, 10,000 +)
- Joint vocational school districts: three groupings based on enrollment (<499, 500-999, 1000+)
- Community Schools that are not e-schools: three groupings based on enrollment (<149, 150 – 499, 500+)
- E-Schools: all in one group
- STEM schools: all in one group

ODE will post the calculations above on its web site and on each school's local report card.

Additionally, ORC 3302.25 requires ODE to make some further, but similar, calculations for each school district:

- The per pupil expenditures for instructional purposes and for administrative purposes, and the ratio between the two.
- The percentage of the district's operating expenditures attributable to school district funds, to be calculated by taking the total operating expenditures, as defined by the standards, and comparing to total revenue.

These calculations, as well as the statewide averages for the same, will be included in a report submitted by ODE to each school district, which shall publish the report on their web sites and otherwise distribute to parents and taxpayers.

## TIMELINE

December 2011	Presentation to State Board
December 31, 2011	Submission of expenditure standards to the Board for consideration
Jan-March 2012	Further consideration by the State Board
March-April 2012	State Board approves standards

June 30, 2012	Deadline for State Board action
August 2012	First local report card with new expenditure data and rankings

#### STAKEHOLDER ISSUES

- Consistency of data. Financial data reported by school districts is in accordance with USAS coding. However, each school district treasurer makes coding choices for the fund, function, and object of each expenditure that may differ from the choices of other treasurers. Thus, a school's ranking may be attributable to accounting differences in addition to its actual spending priorities.
- Contextual differences among school districts. First, there are variations in the student population. It is acknowledged that some student factors correlate with higher expenditures, and correlate even more with expenditures compared to outcomes. Second, school districts do not provide the same services. Some schools provide, for instance, band, middle school sports, gifted education, counseling, high school busing, an extended school year, vocational education, etc. Both of these types of variations affect the amount of money districts spend.

## **Expenditure Standards**

### **(A) Purpose:**

These standards fulfill the requirement of H.B. 153, the FY2012-13 Budget Bill, which included the following new provision:

#### **3302.20 Standards for determining operating expenditures.**

(A) The department of education shall develop standards for determining, from the existing data reported in accordance with sections 3301.0714 and 3314.17 of the Revised Code, **the amount of annual operating expenditures for classroom instructional purposes and for nonclassroom purposes** for each city, exempted village, local, and joint vocational school district, each community school established under Chapter 3314. that is not an internet- or computer-based community school, each internet- or computer-based community school, and each STEM school established under Chapter 3326. of the Revised Code. Not later than January 1, 2012, the department shall present those standards to the state board of education for consideration. In developing the standards, the department shall adapt existing standards used by professional organizations, research organizations, and other state governments. The state board shall consider the proposed standards and adopt a final set of standards not later than July 1, 2012.

The standards will first address what to include and exclude with regard to the calculation of "operating annual expenditures." The standards will also address what part of operating annual expenditures to include in each of the two categories "classroom instructional" and "nonclassroom."

### **(B) Method:**

The expenditure calculations will be based on data reported via the Education Management Information System (EMIS) as required by ORC 3314.17 for community schools and ORC 3301.0714 for other schools. The initial expenditure data includes spending from all funds, including federal, grant, and fee-supported funds. The expenditure data will have exclusionary items removed, and then will be divided into classroom instructional and nonclassroom based on the fund, function, and object as

reported by the school. All such calculations and divisions will be applied consistently across all types of schools.

**(C) Exclusions**

From the expenditure data reported by schools, expenditures in certain funds, functions, and objects will be excluded in order to calculate the amount of annual operating expenditures. Exclusions may be made for the following reasons:

1. To avoid double-counting expenditures. Examples include expenditures from self-insurance or other rotary funds.
2. To exclude expenditures of district agency funds, which are used to account for those assets held by a school district as an agent to individuals, private organizations, and other governmental units.
3. To exclude expenditures made to educate students not included in the enrollment of the school, but educated elsewhere, such as a private school or a student attending another public school.
4. To exclude expenditures made to educate students who are outside the EMIS enrollment data, such as pre-school students, or for non-educational purposes such as community recreation or community library services.
5. To exclude expenditures that are not "operating", but are instead characterized as "capital" or other one-time expenditures with long-term benefits. Also excluded are debt service payments, per ORC 3301.0714(J)(2).

**(D) Classroom Instructional versus Nonclassroom**

All expenditures remaining after applying the exclusions are considered operating annual expenditures and will be divided into two mutually exclusive categories: classroom instructional and nonclassroom.

The paragraphs below describe the division between the two categories, including an explanation of type of spending and then an explanation of which expenses within each category is recommended to be in classroom vs nonclassroom:

1. Administration expenses. These deal with administration, management and educational leadership of a school district or building. These costs do not deal directly with the education of the students but rather encompass planning, research, information services, staff services, and data processing expenditures. Included are building-level administration, including the principal, and central

office costs incurred for the Board of Education, Superintendent's Office, Fiscal Services, Business Manager, and Support Services.

- **All included as nonclassroom.**

2. Building and operations expenses. These are for provision and maintenance of the district and school housing, transportation and utilities, and other environmental support. Purchasing for the enterprise funds, the largest of which is the lunchroom operation, is also included.

- **All included as nonclassroom.**

3. Instruction. Includes regular instruction, special instruction, and vocational instruction. Easily the category with the most expenses, it includes salaries and benefits, as well as textbooks and certain supplies, equipment, and purchased services that are used with students.

- **All included as classroom instructional.**

4. Staff support. This includes activities for the improvement of instructional services, such as assistance in the classroom, staff development, training, and advice for teachers and other staff.

- **Divided between the two categories:**

- i. **Classroom instruction: special education aides and attendants, instructional staff training, and other functions tied to improvement in the classroom.**

- ii. **Nonclassroom: supervision/direction and training of non-instructional staff.**

5. Pupil support: This category includes services to support students at school, in both academic and non-academic purposes.

- **Divided between the two categories:**

- i. **Classroom instruction: Guidance, educational media, instructional staff classroom support (teaching aides), attendance/social work, disabilities support, and other provision of direct help to students to aid instruction.**

- ii. **Nonclassroom: extracurricular activities, health services, speech/audiology, psychological services, and supervision/direction.**